VZCZCXRO5582
PP RUEHAG RUEHDF RUEHIK RUEHLZ RUEHROV
DE RUEHTC #0050/01 0111323
ZNR UUUUU ZZH
P 111323Z JAN 07
FM AMEMBASSY THE HAGUE
TO RUEHC/SECSTATE WASHDC PRIORITY 7828
INFO RUCPDOC/USDOC WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RUEHFT/AMCONSUL FRANKFURT 3598
RUCNMEM/EU MEMBER STATES COLLECTIVE
RUEHAT/AMCONSUL AMSTERDAM 2037

UNCLAS SECTION 01 OF 02 THE HAGUE 000050

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STATE FOR EUR/UBI (RREITER)
USDOC FOR 4212/USFCS/MAC/EURA/OWE/DCALVERT
TREASURY FOR IMI/OASIA/VATUKORALA
PARIS ALSO FOR OECD
STATE PLEASE PASS FEDERAL RESERVE
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E.O. 12356: N/A
TAGS: ECON EFIN PREL EINV ELAB PGOV NL

SUBJECT: DUTCH ECONOMY RETAINS ITS MOMENTUM

THE HAGUE 00000050 001.2 OF 002

¶1. SUMMARY. In 2006, the Dutch economy outperformed the European average for the first time since the late nineties, largely due to a rise in disposable family income and investment and export growth. Experts expect this trend to continue in 2007 and 2008, widening the gap between Dutch and European growth rates. This upturn follows several years of flagging growth, when the Netherlands was in a deeper economic slump than the European economy as a whole, and economic recovery was progressing slower than in the rest of Europe. END SUMMARY.

GROWTH REMAINS STRONG

¶2. The Dutch economic growth rate doubled to 3 percent in 2006, up from 1.5 percent in 2005 and above a 2006 European (EU-25) average of 2.8 percent. The Dutch labor market also performed well with unemployment down to 5.5 percent in 2006, comparing favorably to the EU-25 average of 7.9 percent in the third quarter. Inflation was at its lowest level in sixteen years, down to 1.1 percent for the whole of 2006. This number compared favorably with an average rise in consumer prices in the EU, estimated at 2.5 percent in 2006. The national budget surplus for 2006 is expected to come out somewhere between 0.1 and 0.4 percent of GDP.

EXPORTS, INVESTMENT, CONSUMPTION

¶3. This upturn in the Dutch economy comes after several years of flagging growth. Like the rest of Europe, the Dutch economy was hit hard by the 2001 drop in world trade growth. The drop caused the Dutch growth rate to fall by more than half from 3.9 percent in 2000 to 1.9 percent in 2001. It then fell behind the rest of Europe in 2002 as continuingly high wage demands damaged price competitiveness. Increased pension premiums hurt competitiveness further and prevented the Netherlands from benefiting fully as world trade recovered in 2003. This continuing loss of price competitiveness caused growth to slow down to only 0.1 percent in 2002 and 0.3 percent in 2003, well below the EU-25 averages of 1.2 and 1.3 percent respectively. Exports refueled growth to 2.0 percent in 2004 as competitiveness recovered and world trade increased further.

¶4. As export growth slowed again in the course of 2005, the Dutch economy slowed down along with the rest of Europe to 1.5 percent,

lagging the EU-25 average by 0.2 percentage points. 2005 saw a pick-up in investment, as producer confidence returned across Europe. Investment growth remained strong in 2006, joined by a moderate increase in exports and a long-awaited pick-up in consumer spending. Consumers had been tapping into their savings for several years, but 2006 finally brought them an increase in disposable family incomes. These factors together ensured strong overall economic growth in 2006.

PROSPECTS FOR 2007-2008 GOOD

¶5. While 2006 is looking to be a peak in the economic recovery within the EU-27, the Dutch economy is generally expected to show continued stable and robust growth. Official estimated growth rates of 3 and 2.8 percent for 2007 and 2008 respectively will put the Netherlands ahead of both the eurozone, forecasted to grow by 2.0 percent in 2007 and 2008, as well as EU-27 averages, forecasted to grow by 2.2 percent in 2007. This continued growth can largely be attributed to projected further increases in disposable family income, expected to flatten out in some of the major economies in Europe. Overall, domestic spending in the Netherlands is expected to remain strong in 2007, with producer confidence at its highest level since 1985 and the number of optimistic consumers outweighing the number of pessimists for the first time since 2001.

BUT CHALLENGES STILL AHEAD

¶6. Current economic indicators point to continued and stable Dutch economic growth in 2007 and 2008. Nonetheless, some economic analysts warn that strong growth could result in higher wage demands due to decreased unemployment and increased job prospects. This could hurt the Netherlands' price competitiveness abroad just as imports from its main trading partners are expected to slow. Despite such upward pressures, wage increases for 2007 should remain modest given that about one third of all collective wage agreements

have been signed for the current year.

BLAKEMAN